REPORT

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Executive/Administration Committee (EAC)

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SUBJECT: February 2014 Federal and State Legislative Update

FEDERAL

State of the Union Address

On January 28, 2014, President Barak Obama delivered the annual State of the Union address and highlighted among the priorities of his Administration the necessity to address the nation's infrastructure and transportation system, energy, and the harmful effects of climate change to the nation and the world. The President also specifically called out the need to address the growing income inequality issues that were highlighted at SCAG's recent Southern California Economic Recovery and Job Creation Summit as well as the need to implement tax reform to encourage investment in the U.S. rather than holding funds overseas. The President noted that the tax code has too many loopholes that punish businesses investing here and reward companies that keep profits abroad. He proposed to enact legislation to close loopholes, end incentives to ship jobs overseas, and lower tax rates for businesses that create jobs domestically. The President also specifically suggested using the money from this tax reform to create jobs rebuilding roads, upgrading ports, unclogging daily commutes, and reminding that first- class jobs gravitate to first-class infrastructure. The President called upon the Congress to protect more than 3 million jobs by finishing the transportation and waterways bills by this summer.

With respect to energy, the President emphasized that in addition to decreasing our reliance on foreign energy sources, further development of America's energy resources will be one of the biggest factors in bringing back more good jobs. The President specifically cited natural gas, one of America's most abundant natural resources. He noted that if extracted safely, it is the bridge fuel that can power our economy with less of the carbon pollution that causes climate change; and noted that businesses plan to invest almost a hundred billion dollars in new factories that use natural gas. The President pledged to cut bureaucracy to help states get these factories built and called on the Congress to help by passing legislation putting people to work building fueling stations that shift more cars and trucks from foreign oil to American natural gas.

The President also noted the significant strides made in solar energy technology, and pledged to advocate for a better tax policy to incentivize more investment into solar, both at the business and consumer level. He also noted that in addition to the higher fuel efficiency standards already set for cars, in coming months he will build on that by setting new standards for trucks to lower demand for oil imports.

Surface Transportation Authorization Hearing
On January 14, 2014, the House Transportation and Infrastructure Committee held hearing entitled "Building the Foundation for Surface Transportation Reauthorization" to identify some of the issues that will be addressed in the next surface transportation authorization bill expected to be written and passed this year.

Chairman Bill Shuster (R-PA) emphasized that the next bill will be about creating and maintaining sustainable jobs and ensuring that we can get products to market for less money that what it is costing now. He cited the need to build on MAP-21's emphasis on increased flexibility and increased focus on freight mobility, and indicated that the Committee is seriously considering the recommendations put forward by the six-month Panel on 21st Century Freight Transportation. Chairman Shuster also announced the Committee has commissioned a second six month panel focused on Public-Private Partnerships, and indicated that mark-up on the successor authorization bill likely will occur by August of this year. The existing MAP-21 authorization law expires at the end of the federal fiscal year, September 30, 2014.

Among those to testify at the hearing, Oklahoma Governor Mary Fallin testified that governors across the country are eager to work on transportation and that the transportation network today is about economic development, jobs and safety. The National Governors Association supports a user-pay principle, the preservation of innovative financing, and believes all options for funding transportation remain on the table at this time. Governor Fallin strongly advocated for a lengthier authorization bill this time around, explaining that bills of short duration – or extensions, have negative impacts on long-range transportation plans and improvements.

Additionally, Mr. Stuart Levenick, President of Caterpillar, Inc., testified at the hearing that bad infrastructure has a drag on the national economy and that the US is in need of an effective supply chain to maintain its manufacturing center. As examples of how poor infrastructure impacts Caterpillar's bottom line, Mr. Levenick said that deficient bridges hamper rail delivery and cause re-routing; congestion in urbanized areas threatens on-time delivery; and restricted channel depths at ports forces them to seek other entry and exit strategies. For many reasons Caterpillar has increased its use of Canadian ports and is now shipping 40 percent of its products through the ports of Prince Rupert and Montreal. Congresswoman Janice Hahn (D-CA) noted that the decision to use Canadian ports over U.S. ports is further contributing the problem of reduced resources to spend on infrastructure. She asked whether this decision was based on any particular fees or deficiencies, and Mr. Levenick responded it was due to the U.S. transport system's deficiencies as a whole in addition to saved time. He noted that in order to address these problems, the US needs to adopt a more integrated plan and a multiyear, sustainable, robustly funded transportation program.

Congresswoman Hahn (D-CA) also noted that she would like to see corridor-based solutions for freight in the next bill and was disappointed that the USDOT omitted intermodal connectors from the Primary Freight Network draft designation. Mr. Levenick advocated the work of the T&I freight panel in saying that their report and recommendations provided a great blueprint for the United States' next steps in freight planning and programming. Congresswoman Grace Napolitano (D-CA) echoed the importance of freight in the next bill, noting in particular that grade crossings are needed for improved freight movement across the nation and dialogue on these needs is important to crafting the next bill.

Much of the Committee hearing focused upon many of the principles adopted by the Regional Council in its 2013 Federal and State legislative priorities, and recommended by the Legislative/Communications and Membership (LCMC) Committee for adoption in the 2014 Federal and State legislative priorities, including the need to expand the national primary freight network; fix the trust fund solvency issue; restore dedicated funding for freight in the next authorization bill; increase flexibility of use of funds to reduce costs and expand the system more efficiently; and develop a longer term, more integrated multi-modal transportation system in the next authorization bill to address the system wide deficiencies as a whole, rather than piecemeal via short term legislation and extensions.

Update of MAP-21 Freight Implementation

On January 22, 2014, the Federal Highway Administration (FHWA) presented a webinar entitled "Talking Freight - MAP-21 Update and 2014 Initiatives", which was a review of MAP-21's freight provisions and what actions USDOT has taken to address them thus far. Caitlin Hughes Rayman, Director of the FHWA Office of Freight Management and Operations summarized the process of how FHWA arrived at its designation of the Primary Freight Network (PFN) reported and summarized to the Regional Council last month.

One aspect of MAP-21 addressed in the webinar was the method by which freight projects would be evaluated when seeking an increased federal share. This process is as follows:

- States submit projects to FHWA division offices, which verifies the project is in the state freight plan and demonstrates improvement to the freight system, then
- FHWA Office of Freight Management and Operations reviews the project and prepares an assessment which is given to the Freight Policy Council (USDOT's internal working group made up of modal administrators, Office of Policy, and Office of the Secretary), then
- Office of the Secretary approves/denies the project.

So far, three states have freight plans confirmed to meet MAP-21's requirements: Indiana, Michigan, and Vermont. California is in process of developing its plan for submission and SCAG is working with statewide stakeholders to prepare the plan. More information concerning this webinar and USDOT freight activities can be accessed at the FHWA freight management and operations website: http://www.ops.fhwa.dot.gov/freight/

Additionally, the FHWA Office of Freight Management and Operations is developing a rulemaking for the Freight Performance Measures and the Notice of Proposed Rulemaking will be released for comments this summer. These interstate-only measurements are required of both States and Metropolitan Planning Organizations (MPOs).

Finally, in response to the USDOT's invitation to comment on the initial draft designation of the Primary Freight Network (PFN) and National Freight Network (NFN) last year, on January 17, 2014, SCAG and other regional transportation stakeholders submitted a joint letter of comment to the USDOT on the draft with recommendations from the region for suggested improvements. These included recommendations to modify the Highway Primary Freight Network; suggested methodology for achieving a 27,000 mile final designation; how to fit the national freight network into a multimodal national freight system; suggestions for an urban area route designation process; and how the national freight network and components could be used in the future. These and other comments submitted from stakeholders nationwide will advise the USDOT and Administration throughout the process of working with the Congress to craft the successor surface transportation authorization bill to MAP-21.

Omnibus Appropriations Bill

On January 15, 2014, the House passed a $1.86 trillion appropriations package for fiscal year 2014 by vote of 359 to 67; Republicans voted 166 to 64 in favor and Democrats voted 193 to 3 in favor. The measure was passed the Senate on January 16, 2014, on back to back 72-26 roll calls to cut off debate and pass the bill. President Obama signed the Consolidated Appropriations Act of 2014 on January 17, 2014. The measure breaks down as follows:

- $1.012 trillion in "regular" discretionary appropriations subject to the cap in the Ryan-Murray law passed in late 2013;
- $91.9 billion in Iraq and Afghanistan spending exempt from the cap,
- $5.6 billion in disaster relief funding exempt from the cap, $924 million in "program integrity adjustments,";
- and $749.4 billion in mandatory appropriations which the Appropriations Committees must provide or else open the government up to lawsuits that the government would likely lose.

Transportation Portions of Omnibus Bill

The final Transportation-HUD appropriations legislation for Federal Fiscal Year 2014 contains $50.856 billion in net discretionary appropriations, $3.2 billion less than the bill reported in the Senate but $6.8 billion more than the bill approved by committee in the House. This is $7.2 billion below the level requested by the Administration, if the request is adjusted to reclassify the White House's railroad reauthorization proposal as discretionary, which the House Appropriations Committee did. This does not include the $50 billion in one-time transportation stimulus funding proposed by DOT for FY 2014.

In addition to the discretionary appropriations, the bill also contains $53.471 billion in obligation limitations on transportation contract authority for highways, mass transit, and airports, money which is not counted against the overall discretionary total that was negotiated in the Ryan-Murray budget deal. On almost all of the major discretionary accounts, the final bill looks a lot more like the Senate bill than the House bill, because the omnibus and subcommittee totals look more like the Senate total than the House total. Notable exceptions are the Senate's proposed $500 million discretionary bridge program, which got dropped in the conference negotiations, and the Senate's $100 million for high-speed and intercity passenger rail, which also got dropped in conference.

The following is a mode-by-mode summary of the transportation provisions of the omnibus appropriations legislation:

Highways. The House and Senate bills were identical with both providing an obligation limitation of $40.256 billion in FY 2014, as per the MAP-21 authorization law, and the final agreement adheres to that level, which is not counted against the discretionary spending ceiling agreed to in the Ryan-Murray deal. However, the Senate bill also contained a $500 million general fund discretionary appropriation for a new bridge program, which as noted above was removed from the final bill. In addition to the $40.256 billion obligation (ob) limit, another $739 million in new highway spending occurs each year outside the appropriations process.

In some prior budget cycles, the Appropriations Committees have taken it upon themselves to adjust spending levels to prevent the Highway Trust Fund from running out of money before the end of the fiscal year. This appropriations bill does not do that. The Department of Transportation's latest estimates show the Highway Account of the Trust Fund running out of cash on a day-to-day basis in early September 2014 if the omnibus bill's $40.256 billion obligation limitation is enacted, but this time, the appropriators are leaving it to the authorizing and tax-writing committees to enact a solution into law to prevent another Trust Fund default before that time.

The omnibus bill contains two new highway provisions of interest:

- Section 124 requires DOT to give the Appropriations Committees three days' advance notice of new TIFIA loan agreements (similar to the three-day notice provisions for appropriated grants that have been in this bill for years), and
- Section 125 invades the authorizers' territory by amending 23 U.S.C. 149(m) to extend indefinitely the ability of certain qualifying areas to shift Congestion Mitigation and Air Quality (CMAQ) Improvement Program moneys to rail or transit projects.

The Omnibus bill does not contain any rescissions of highway contract authority, as the House bill did. However, the bill does repurpose some SAFETEA-LU maglev money (see the rail analysis section below).

Aviation. The final bill restores the cuts made by budget sequestration to FAA's operations and procurement accounts. The Operations account receives $9.651 billion, which is $56 million below the budget request but $255 million more than the post-sequestration level in 2013 (as amended by the transfer of money from airport grants to salary accounts by the Reducing Flight Delays Act of 2013). Within the Operations account, the appropriations for the Air Traffic Organization and for the Aviation Safety activity each receive the amount requested by the President. Also the omnibus sets aside $140 million for the contract tower program will prevent the FAA from trying to shut those towers again in FY 2014.

The FAA's Facilities and Equipment account receives $2.6 billion, which is $178 million less than the budget request and just $6 million more than the post-sequestration 2013 level. The cuts from the budget request are primarily in some GPS programs and the NextGen area. The Research, Engineering and Development account receives $159 million in the final bill, and that account prunes $12 million from the request by eliminating the Joint Planning and Development Office for NextGen.

The Airport Improvement Program receives an obligation limitation of $3.350 billion, the same as the 2012 and pre-sequestration 2013 levels and the same level for 2014 as authorized by law, with the allocation of funds within that account virtually the same as in the Senate bill (the omnibus sets aside $107 million for administrative expenses, $30 million for airport technology research, $15 million for airport cooperative research, and $5 million for the Small Community Air Service program).

The final bill appropriates $149 million for the Essential Air Service subsidy program within the Office of the Secretary (in addition to $100 million in mandatory spending from FAA overflight fees that goes towards EAS outside the appropriations process.) The bill includes a provision prohibiting DOT from renewing an EAS contract with a community less than 40 miles from a hub airport unless DOT has negotiated a local cost share with the community.

Mass Transit. The final bill provides an obligation limitation of $8.595 billion for Federal Transit Administration formula grants in fiscal year 2014, which is the amount authorized by the MAP-21 law and requested by the President, to be distributed according to the statute. The big discretionary account (Capital Investment Grants, a.k.a. new starts and small starts) gets $1.943 billion, which is the Senate-recommended amount and only $39 million below the level requested by the President. Section 167 and 168 of the bill allow funding from prior years to be transferred to the new starts account to fund new starts and $93 million in bus rapid transit projects, for a usable account total of $2.132 billion, which almost exactly the level requested by the White House.

Rail. The Administration in its budget proposed that Federal Railroad Administration spending (including grants to Amtrak) increase from $1.65 billion in FY 2012 to $6.6 billion in FY 2014, largely by switching Amtrak and high-speed rail spending from their traditional discretionary classification (which makes those programs subject to the restrictive and hard-fought appropriations cap) to mandatory spending – but the Administration neglected to include a legitimate offset as required under the Statutory Pay-As-You-Go Budget Act to offset the cost of increased mandatory spending. So both chambers of Congress did not support the Administration's proposal and the programs continue in the traditional manner.

Amtrak operating subsidies, which were $466 million before sequestration and which were cut to $350 million under the House bill, receive $340 million in the final bill. And Amtrak capital and debt service grants, which received $952 million pre-sequestration and which were slashed to $600 million under the House bill, receive $1.05 billion in the final bill. (The Senate bill consolidated both existing Amtrak grant accounts into one account, but the combined total in the final bill is $62 million below the Senate bill.)

The final FY 2014 bill contains zero funding for new high-speed and intercity passenger rail projects, just as the 2011, 2012 and 2013 laws contained zero funding for the program. (The House bill had zero to begin with, while the Senate bill had $100 million.) However, this is part of what appears to be a three-way tradeoff as follows:

- The Senate agreed to drop its high-speed rail appropriation;
- The House agreed to drop the Denham amendment that specifically banned any new federal funding from any DOT source from going to the California high-speed rail project in FY 2014; and,
- Grants for TIGER surface transportation grants were increased from the Senate bill's $550 million to $600 million.

Under TIGER, "passenger and freight rail transportation projects" are eligible for funding, so in theory DOT could use some of the FY 2014 TIGER money for high-speed or medium-speed intercity passenger rail projects, in California or elsewhere (subject to the TIGER program's limitations that no more than $150 million of the money go to any one state and that at least $120 million go to projects in rural areas). But high-speed rail will have to compete with all of the highway, bridge, mass transit, port, and bicycle and pedestrian projects in the country for a share of that $600 million. In the case of California HSR, if DOT intends to give FY14 TIGER money to that project it might be contradictory to the prior TIGER rulemaking announcements regarding cost-benefit analysis for stand-alone segments of larger projects.

Also, the House bill had rescinded $80 million in unused magnetic levitation contract authority from section 1307 of the SAFETEA-LU law and used that savings to offset a new appropriation for grade crossings, and this was an invasion of the authorizing committees' jurisdiction. Instead, section 192 of the omnibus appropriations bill simply "repurposes" that $80 million, saying that the contract authority now "shall be available to the Secretary of Transportation to make grants" for rail capital projects, to carry out the railroad safety technology grant program, and for high-speed rail corridor planning grants with $20 million of the $80 million set aside for those corridor planning improvement grants to do tier I EIS. Thus the TIGER program receives a post-stimulus record $600 million in the omnibus bill, as noted, and the conditions placed on the funding are the same as in prior years, but there is now a $35 million set-aside for planning grants. (Emphasis added)

Neither the Appropriations Committees (in the omnibus) nor any other Congressional committees have taken any action to date on two major proposals in the President's budget: his proposal for $50 billion in "immediate transportation investment" (a.k.a. stimulus) within the Department of Transportation, nor for $10 billion in FY 2014 to establish an independent National Infrastructure Bank.

For a summary of the negotiated omnibus bill in its entirety as well as Transportation-HUD portions provided by the House Appropriations Committee, please visit the following link: http://appropriations.house.gov/news/documentsingle.aspx?DocumentID=366721

STATE

Governor's Proposed 2014-15 State Budget

On January 10, 2014, Governor Brown released his proposed 2014-15 state budget, which projects total General Fund resources, including revenues and transfers and prior year balance of funds of $108.715 billion - an increase from the FY 2013-14 General Fund total resources balance of $102.675 billion. Proposed expenditures of the 2014-15 Governors' Budget are $106.793 billion, with $1.591 billion set aside for the Budget Stabilization Account, also known as the "Rainy Day Fund."

General Fund revenues are derived from various taxes, fees and other sources estimated for the 2014-15 fiscal year at $106,094 billion, as follows:

• Personal Income Tax	$69.794 billion	(65.8%)
• Sales and Use Tax	$24.071 billion	(22.7%)
• Corporation Tax	$ 8.682 billion	(8.2%)
• Insurance Tax	$ 2.297 billion	(2.1%)
• 'Other'	$ 1.280 billion	(2%)
➢ Includes: (Alcohol Tax & fees)	$ (357 million)	
➢ (Cigarette Tax)	$ (86 million)	
➢ (Motor Vehicle fees)	$ (20 million)	
➢ (Other Misc. fees)	$ (817 million)	

The 2014-15 Governor's Budget proposes the following General Fund expenditures by agency:	
• Legislative, Judicial, Executive	$ 2.844 billion
• Business, Consumer Services & Housing	$ 745 million
• Transportation	$ 212 million
• Natural Resources	$ 2.175 billion
• Environmental Protection	$ 54 million
• Health and Human Services	$28.793 billion
• Corrections and Rehabilitation	$ 9.560 billion
• K-12 Education	$45.251 billion
• Higher Education	$12.377 billion
• Labor Workforce Development	$ 268 million
• Government Operations	$ 685 million
• Non-Agency Departments	$ 610 million
• Tax Relief/Local Government	$ 437 million
• Statewide Expenditures	$ 1.191 billion
• Supplemental Payment to Economic Recovery Bonds	$ 1.591 billion
TOTAL:	**$106,793 billion**

Budget Expenditure Priorities and Provisions
In education, the 2014-15 Governor's budget proposes to invest $10 billion in new Proposition 98 funding, bringing the total funding to education to $64.5 billion, up from $56.8 billion in FY 2013-14. For health and human services, the budget commits $670 million in new General Fund spending to fund expansion of Medi-Cal benefits. For the state's infrastructure, the budget includes release of the state's five-year infrastructure plan for the first time since 2008. This plan identifies costs of maintaining the state's existing assets, an estimated $64.6 billion in deferred maintenance costs; the budget also includes an $815 million package of funding for critical deferred maintenance in highways, local streets and roads, state parks, schools, community colleges, and other state facilities.

With respect to climate change and water sustainability, the proposed budget would invest $850 million of Cap and Trade auction proceeds to support existing and pilot programs to reduce greenhouse gases (GHG), including the statutorily required assistance to disadvantaged communities. The budget includes repayment of $100 million (of the $500 million) of Cap and Trade funds loaned to the General Fund in 2013-14, with the remaining balance to be repaid in future years. These funds will help develop projects that will modernize the rail system, including high-speed rail, and encourage local communities to develop in a sustainable manner. Likewise the budget proposes $619 million to support the state's Water Action Plan to expand water storage capacity, improve drinking water quality, increase flood protection, and increase regional self-reliance. A portion of the Cap and Trade proceeds are proposed to be used for water efficiency and to restore wetlands and watersheds.

Paying Down Debt and Liabilities

The state's overall modest economic recovery, coupled with a windfall from volatile capital gains revenues and temporary Proposition 30 tax revenues, provide an opportunity for the state to continue paying down the state's "Wall of Debt" comprised of various state borrowing and deferral of payments occurring since 2000 during recessions and years when the state faced excessive fiscal budget deficits. In 2011, the state's level of outstanding budgetary borrowing totaled $34.7 billion. The state began paying down that debt in FY 2013-14 and it will have been reduced to $24.9 billion by the end of FY 2013-14. This budget proposes to reduce this debt by $11 billion this year and to fully eliminate it by 2017-18 so that billions each year will no longer be needed to pay past borrowing and deferral of payments. The budget proposes to do this with three principal provisions:

1. Eliminate School Deferrals – the state deferred some of its annual payments to schools during the recession, forcing many schools to borrow money to manage the deferral of state payments. The budget would repay $6 billion of these deferred payments.
2. Pay off Economic Recovery Bonds – the state currently pays $1.6 billion in annual sales tax revenues to service debt on prior voter approved Economic Recovery Bonds. The budget would make a supplemental payment of $1.6 billion this year to retire the last of these bonds.
3. Make Early Loan Payments – the budget proposes to make early payments on two loans – transportation loans totaling $340 million and $100 million of the $500 million Cap and Trade loan.

Other long term debts and liabilities of the state – to schools, public employees' pensions and retirement health benefits, infrastructure debt, and unemployment insurance – total $355 billion. While these liabilities and debts will take decades to pay off or fully fund, the budget proposes to begin the process of paying these by making a $3.4 billion Proposition 98 maintenance factor payment and the $815 million deferred maintenance package for the state's infrastructure.

Finally, the budget proposes strengthening the state's Rainy Day Fund to help address the inevitable next state budgetary shortfall by proposing a constitutional amendment, key provisions of which are:

- Doubling the size of the Rainy Day Fund from 5 percent to 10 percent;
- Creating a Proposition 98 reserve, whereby spikes in funding would instead be saved for future years of decline. This would smooth school spending to prevent the damage caused by cuts. The reserve would make no changes to the guaranteed level of funding dedicated to schools under Proposition 98;
- Basing deposits to the fund on when capital gains revenues rise to more than 6.5 percent of General Fund tax revenues;
- Allowing supplemental payments to the Wall of Debt or other long-term liabilities in lieu of a year's deposit;
- Limiting the maximum amount that could be withdrawn in the first year of a recession to half of the fund's balance, to ensure the state does not overly rely on the fund at the start of a downturn.

In summary, the proposed budget would pay down one-time debt and augment the state's rainy day fund as follows:

- Accelerate pay down of economic recovery bonds by about one year ($1.6 billion General Fund).
- Pay off remaining school and community college deferrals ($6.2 billion Proposition 98 funds).

- Repay $1.6 billion in special fund loans in 2013–14 and 2014–15 combined.
- Provide $188 million for school repairs.
- End 2014-15 with $2.3 billion reserve (including $1.6 billion in Proposition 58 reserve).
- Create new rainy–day fund mechanism to replace existing Proposition 58 reserve with new Proposition 98 reserve.

Transportation
The proposed budget includes total funding of $15.3 billion ($83 million General Fund and $15.2 billion other funds) for all programs administered within the Transportation Agency, consisting of the following state entities: Department of Transportation (Caltrans); California Transportation Commission (CTC); High-Speed Rail Authority; Department of Motor Vehicles (DMV); California Highway Patrol (CHP); and Board of Pilot Commissioners.

Department of Transportation

Caltrans receives funding of $10.9 billion in the proposed budget. The largest sources of funding for transportation projects are excise taxes paid on fuel consumption, federal funds also derived from fuel taxes, and weight fees on trucks. Significant features of the budget pertaining to Caltrans include:

- Cap and Trade Funding for Transportation — The Budget includes Cap and Trade funds for programs that will be administered in full, or in part, by Caltrans;
- Rail Modernization — The Budget proposes $300 million in new funding for rail modernization; including $50 million for Caltrans and $250 million for the High‑Speed Rail Authority. The $50 million in the Caltrans budget will fund competitive grants for existing rail operators to integrate rail systems and to provide connectivity to high‑speed rail. The program will be managed by the Transportation Agency, and the work of southern and northern California rail partner groups will be considered in making project selections;
- Sustainable Communities Strategies — The Budget proposes $100 million for the Strategic Growth Council for a broad set of investments to support implementation of SB 375 sustainable communities' strategies. This program will include transit and transit‑oriented development that includes low‑income housing; active transportation; agricultural‑land preservation; and related planning;
- Repayment of General Fund Loans — the Budget includes $351 million in early General Fund loan repayments. Of the total to be repaid, $337 million will be used to accelerate preservation and maintenance projects on both state highways and local roads that would otherwise be funded in 2015‑16 or thereafter. Accelerating existing projects will allow for new projects to be added to the State Highway Operations and Protection Program (SHOPP) in future years making further investments in the state highway system. Preservation projects include pavement, traffic management mobility projects, bridge projects, and drainage system rehabilitation projects. Additionally, the proposed repayment includes support for sustainable communities through funding of active transportation and environmental mitigation. Funds from the repayment of General Fund loans will be allocated as follows:
    - $110 million to fund pavement rehabilitation projects on state highways;
    - $100 million to cities and counties for preservation of local streets and roads;
    - $100 million for traffic management mobility projects;
    - $27 million for highway pavement maintenance;

  - $9 million for active transportation projects;
  - $5 million for environmental mitigation.
- Appropriation of Proposition 1B Bond Funds — The Budget proposes $1.1 billion in bond funds and administrative cost savings that Caltrans has generated in its management of the bond program. The funding includes $793 million to support local transit operators, $160 million for intercity rail, and $113 million for additional state highway projects. Expenditures in these areas support the regional implementation of SB 375 sustainable communities plans.

High Speed Rail

The High-Speed Rail Authority is responsible for the development and construction of a high-speed passenger train service between San Francisco and Los Angeles/Anaheim (Phase I), with extensions to San Diego and Sacramento and points in-between (Phase II). Proposition 1A, enacted in November 2008, authorizes $9 billion in bond proceeds for the high-speed rail lines and equipment, and an additional $950 million for state and local feeder lines. The federal government has also awarded the state nearly $3.5 billion to design and fund portions of the project in the Central Valley. The Authority's 2012 Business Plan identifies a $31.3 billion capital cost for the initial operating segment from Merced to the San Fernando Valley.

The proposed budget would allocate $250 million in Cap and Trade auction revenues for the Phase I project planning ($58.6 million) and construction and right of way acquisition for the first phase of the Initial Operating Section ($191.4 million). This is part of Rail Modernization referenced in the Caltrans summary above, which also includes $50 million for urban, commuter and intercity rail operators. The Administration's budget recognizes that the new Cap and Trade funds are critical to addressing the overall funding needs for the initial operating segment, leveraging additional funding opportunities, and moving the project forward while legal issues surrounding Proposition 1A funding for high speed rail are being resolved. The budget also assumes that moving the project forward with Cap and Trade funds will help meet the state matching requirements in the federal grant agreement and will help avoid long-term project escalation costs.

Cap and Trade Investment Plan

The Governor's proposed budget recognizes that the California Global Warming Solutions Act of 2006 (AB 32) established California as a global leader in reducing GHG emissions. To meet the goals of AB 32, the state has adopted a three-pronged approach to reducing greenhouse gas emissions, including adopting standards and regulations, providing emission reduction incentives via grant programs, and establishing a market-based compliance mechanism known as Cap and Trade.

The Cap and Trade program sets a statewide limit on the GHG sources responsible for 85 percent of California GHG emissions. Through an auction mechanism, it establishes a financial incentive for industries subject to the statewide cap to make long-term investments in cleaner fuels, more efficient energy use, and technological and scientific innovations. Based on the draft update to the AB 32 Scoping Plan, the Cap and Trade program will be responsible for approximately 30 percent of the required GHG emission reductions to meet the AB 32 goal of reducing GHGs to 1990 levels by 2020.

The Air Resources Board has held five auctions to date. The remaining two auctions for 2013-14 will occur in February and May 2014. Currently, GHG emissions from electricity and large industrial sources are subject to the cap. The sale of allowances consigned to auction by electric distribution utilities resulted in proceeds of $836 million, to be used as directed by the California Public Utilities Commission or governing boards for ratepayer benefits consistent with the goals of AB 32. In addition, the five auctions to date have generated $532 million in state auction proceeds. Chapter 830, Statutes of 2012 (SB 535), requires that at least 10 percent of the proceeds received by the state be invested within the most impacted and disadvantaged communities and at least 25 percent of the proceeds be invested to benefit these communities.

The California Environmental Protection Agency (CalEPA), directed by SB 535, determined the list of disadvantaged communities using CalEnviroScreen, a tool developed by the Office of Environmental Health Hazard Assessment, in collaboration with stakeholders and an advisory group. From October 2012 to May 2013, an inter-agency team drafted and developed the first three-year investment plan for Cap and Trade auction proceeds, consistent with the requirements of Chapter 807, Statues of 2012 (AB 1532). Outreach included public meetings in Fresno, Los Angeles and Sacramento, and an Air Board workshop and hearing. The final investment plan was released in May 2013, and continues through the 2015-16 fiscal year, emphasizing investments in existing programs in sectors which have the greatest GHG emissions — transportation, energy, waste and natural resources — with proposed investments commensurate with relative emissions.

The 2013 Budget Act included a $500 million loan of auction proceeds to the General Fund. The Budget proposes to invest $850 million of Cap and Trade proceeds to support existing and pilot programs that will promote GHG reductions and meet SB 535 goals; this amount includes repayment of $100 million of the 2013 Budget loan, with the remaining balance being repaid within the next few years. State agencies worked in coordination with stakeholders to develop this plan, which draws upon the findings of related climate policy documents, including the discussion draft of the Governor's Environmental Goals and Policy Report and the draft update to the AB 32 Scoping Plan. The Budget's expenditure plan meets these goals by investing in both near‑term emission reductions and projects that support California's longer‑term climate targets. Finally, these programs invest at least $225 million for the benefit of disadvantaged communities, and create jobs.

As reverenced above in the Transportation section, the Cap and Trade Expenditure Plan proposes investments in the following programs for transportation and sustainable communities related purposes:

- Rail Modernization — $300 million to continue the work of modernizing and integrating rail transportation. A modernized rail system benefits California by improving mobility across the state in a manner that will increase transit ridership and reduce GHG emissions. These funds will continue the work begun in 2012, when the Legislature approved Chapter 152, Statutes of 2012 (SB 1029), which provided $7.8 billion in state and federal funds to start construction of high‑speed rail and to modernize existing rail systems across the state. The Budget proposes the following allocation:
    - High‑Speed Rail — $250 million for the High‑Speed Rail Authority for construction of the Central Valley initial construction segment and further environmental and design work on the statewide system. Proposed legislation provides an ongoing state commitment of Cap and Trade proceeds to high‑speed rail, which will leverage additional federal support for the project and facilitate future phases of the initial operating segment from Merced to the San Fernando Valley.

- Integration of Rail Systems — $50 million for the Department of Transportation to administer a competitive grant program for existing rail operators for capital improvements to integrate rail systems, including those located in disadvantaged communities, and provide connectivity to the high‑speed rail system.

- Sustainable Communities — $100 million in local assistance funding to support regions in the implementation of the sustainable communities strategies required by Chapter 728, Statutes of 2008 (SB 375), and to provide similar support to other areas with GHG reduction policies, but not subject to SB 375 requirements. The Strategic Growth Council will coordinate this program with programmatic work performed by a multi‑agency team of departments, including the Department of Transportation, the California Transportation Commission, the Department of Housing and Community Development, and the Natural Resources Agency. Selected projects will prioritize disadvantaged communities and will reduce GHG emissions by increasing transit ridership, active transportation (walking/biking), affordable housing near transit stations, preservation of agricultural land, and local planning that promotes infill development and reduces the number of vehicle miles traveled.
- Low Carbon Transportation — $200 million for the Air Board to accelerate the transition to low carbon freight and passenger transportation, with a priority for disadvantaged communities. This investment will support the state's clean air and climate change goals, as well as the Administration's goal to deploy 1.5 million zero‑emission vehicles in California by 2025. The Air Board administers existing programs that provide rebates for zero‑emission cars and vouchers for hybrid and zero‑emission trucks and buses. This proposal will respond to increasing demand for these incentives, as well as provide incentives for the pre‑commercial demonstration of advanced freight technology to move cargo in California, which will benefit communities near freight hubs.

Impacts of Proposed Transportation C&T Expenditures

SCAG has adopted principles of Cap and Trade revenue allocations consistent with the statewide principles advocated for by the Coalition of Livable Communities, of which SCAG is a participating member, that recognize that the transportation sector should be recipient of Cap and Trade revenues in amounts roughly commensurate with the sector's responsibility for creating greenhouse gas (GHG) emissions. As the largest single source emitting sector, transportation contributes roughly 40% of GHG emissions which lead to global warming and climate change; thus the principles call for approximately 40% of revenues derived from Cap and Trade auction revenues to be allocated to the transportation sector.

SCAG supports the inclusion of $100 million for SCS implementation and the administration's efforts to expedite SCS projects. However, the $100 million proposed for sustainable communities is not sufficient to address the demonstrated need if the state is to approach the reduction goals mandated by AB 32 ($166 billion SCS projects are included in the Board approved 2012-2035 RTP/SCS Plan). Further, responsibility for achieving these reduction goals fall principally at the local, regional level, yet the allocation of revenues as proposed suggest a top down approach from the state through the Strategic Growth Council to the local jurisdictions.

SCAG will be working with its stakeholder partners throughout the state to urge both the Administration and the Legislature to recognize that if the regional and local agencies are charged with primary responsibility to implement GHG reduction strategies and lower emissions totals for the state by 2020, they are the entities that should be principally involved in determining how these scarce funds should be deployed to most effectively achieve the reduction. Additionally, we will continue to advocate for a larger share of available funds for accelerated SCS strategy implementation, which will be required as noted above if the state is to meet the statutorily mandated reduction goals by 2020.

Local Government

The proposed budget recognizes that while the elimination of former Redevelopment Agencies (RDAs) removed an important tool for local government, the Administration contends it was necessary to avoid further reductions in core services that had already been significantly cut, and notes that the current law still provides opportunities for local governments to engage in economic development, such as through the issuance of General Obligation bonds, Lease Revenue Bonds, increased local tax rates, and through establishment of Infrastructure Financing Districts (IFDs).

With respect to IFDs, cities and counties may establish IFDs which, like RDAs are empowered to use tax increment financing to finance tax allocation bonds, the proceeds from which are used for local development. Similar to the RDAs, the IFDs also have a cap on their existence and may exercise eminent domain powers during their existence. However, IFDs are limited in the types of projects that they may fund. Generally IFDs can only fund 1) highways and transit projects, 2) water, flood control, sewer, and solid waste projects, 3) child care facilities, and 4) libraries and parks. Furthermore, unlike the RDAs, affected cities, counties, and special districts have the option to participate in the IFDs while schools cannot, which means IFDs have no Proposition 98 General Fund impact. IFDs require a two-thirds vote by the affected electorate to be created.

The Administration proposes legislation to do the following:

- Expand the types of projects that IFDs can fund to include military base reuse, urban infill, transit priority projects, affordable housing, and associated necessary consumer services. The goal is to maintain the IFD focus on projects which have tangible quality-of-life benefits for the residents of the IFD project area;
- Allow cities or counties that meet specified benchmarks to create these new IFDs, and to issue related debt, subject to receiving 55-percent voter approval;
- Allow new IFD project areas to overlap with the project areas of the former RDAs, while strictly limiting the available funding in those areas to dollars available after payment on all of the former RDA's approved obligations;
- Maintain the current IFD prohibition on the diversion of property tax revenues from K-14 schools, which will ensure any usage will have no state General Fund impact, and require entities that seek to establish an IFD to gain the approval of the county, cities, and special districts that would contribute their revenue, including residual revenue, to the IFD.

The Administration's legislative proposal seeks to ensure that expansion of the use of IFDs not come at the expense of the continuing RDA dissolution process. If the establishing city or county formerly operated an RDA, the expanded IFD tool would be available to them only when they meet three criteria:

1. Receipt of a Finding of Completion from Finance, which demonstrates that the city or county has remitted all of the unencumbered cash assets of its former RDA to the affected taxing entities.
2. Compliance with all State Controller's Office RDA audit findings;
3. Conclusion of any outstanding legal issues between the successor agency, the city or county that created the RDA, and the state.

In summary, general features of the Governor's 2014-15 state budget propose to initiate a multiyear plan that is balanced, pays off budgetary debt from past years, saves for the rainy day fund, makes increased investments in education, the environment, public safety, transportation and infrastructure, and health/human services "safety net" programs.

Governor Brown Declares Drought State of Emergency

On January 17, 2014, Governor Jerry Brown declared a drought State of Emergency for California. This action allows the state to take actions to address the drought, including preparing for potentially severe water shortages for California residents. Under the Governor's proclamation, the state has hired 125 additional firefighters to help address the increased fire threat due to drought conditions, and the California Department of Public Health has identified and offered assistance to communities at risk of severe drinking water shortages. The Governor has called on all Californians to voluntarily reduce their water usage by 20 percent. On January 30, 2014, the Governor and officials from the Metropolitan Water District, serving almost 19 million Californians throughout Southern California, joined in encouraging residents to conserve their water use.

In response to acute drought conditions, the Association of California Water Agencies (ACWA) has released its first issue of California Drought Watch. This new resource is aimed at keeping Californians current on drought conditions, impacts, news and other developments associated with the unprecedented drought that California is experiencing. California Drought Watch compiles information from many resources, and reports on actions taken by public officials related to the drought. ACWA has also launched a new interactive map to show local response actions to the drought. The map is available at: http://www.acwa.com/content/drought-map. The Association's California Drought Watch can be accessed at: http://www.acwa.com/content/2014-drought-watch.

In addition, on January 29, 2014, California's entire Republican delegation has co-sponsored H.R. 3964, the Sacramento–San Joaquin Valley Emergency Water Delivery Act, introduced by Rep. David Valadao (R-Bakersfield). It would codify the Bay-Delta Accord and amend the Central Valley Project Improvement Act and the San Joaquin River Restoration Settlement Act to allow additional water deliveries to farmers. Staff will monitor and advise the Regional Council on developments related to this bill.

Active Transportation Program Draft Guidelines

The California Active Transportation Program (ATP) was created by Senate Bill 99 (Chapter 359, Statutes 2013) and Assembly Bill 101 (Chapter 354, Statutes 2013), to encourage increased use of active modes of transportation, such as biking and walking, as well as to ensure compliance with the federal transportation authorization law, MAP-21. The California Transportation Commission (CTC) released the Preliminary Draft Active Transportation Program Guidelines at its December 2013 meeting. On January 15, 2014 SCAG and the region's transportation commissions submitted a joint-comment letter regarding the draft Guidelines to the CTC. These comments are intended to increase the competitiveness of Southern California agencies for statewide funds; reduce administrative burden for SCAG and project sponsors; provide greatest possible flexibility for implementation of the regional competitions; ensure timelines are feasible; and support the state and region in demonstrating progress in advance of MAP-21 Reauthorization to preserve TAP funding.